

C & M COMMUNITY SCHOOL DISTRICT
MASSENA, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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C & M COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2006 Election)		
Galen Becker	President	2007
Jennifer Holste	Vice President	2008
Todd McKee	Board Member	2006
Rob Ticknor	Board Member	2006
Gary Dinkla	Board Member	2008
<u>Board of Education</u>		
(After September 2006 Election)		
Galen Becker	President	2007
Jennifer Holste	Vice President	2008
Todd McKee	Board Member	2009
Rob Ticknor	Board Member	2009
Gary Dinkla	Board Member	2008
<u>School Officials</u>		
Steve Pelzer	Superintendent	2007
Linda Edwards	District Secretary/Treasurer	2007
Rick Franck	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
C & M Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of C & M Community School District, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of C & M Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 17, 2007 on our consideration of C & M Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 14 and 46 through 47 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise C & M Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
August 17, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

C & M Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues increased from \$2,005,976 in fiscal 2006 to \$2,223,921 in fiscal 2007, while General Fund expenditures increased from \$2,093,067 in fiscal 2006 to \$2,120,683 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$31,521 in fiscal 2006 to \$134,984 in fiscal 2007, a 328% percent increase from the prior year.
- No new buses were purchased during the 2007 fiscal year. The PPEL/SILO funds revenues totaled \$187,731 for FY 2007. PPEL taxes were decreased this year and a larger cash reserve levy was budgeted. Cash reserve levy for FY 2007 was \$190,000 compared to \$40,000 in FY 2006.
- Significant savings were made when administration was cut from 1.2 to one administrator. Also, a different health insurance provider and plan resulted in a significant saving in premiums.
- Enrollment dropped from 225.6 in FY 2006 to 214.0 in FY 2007.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

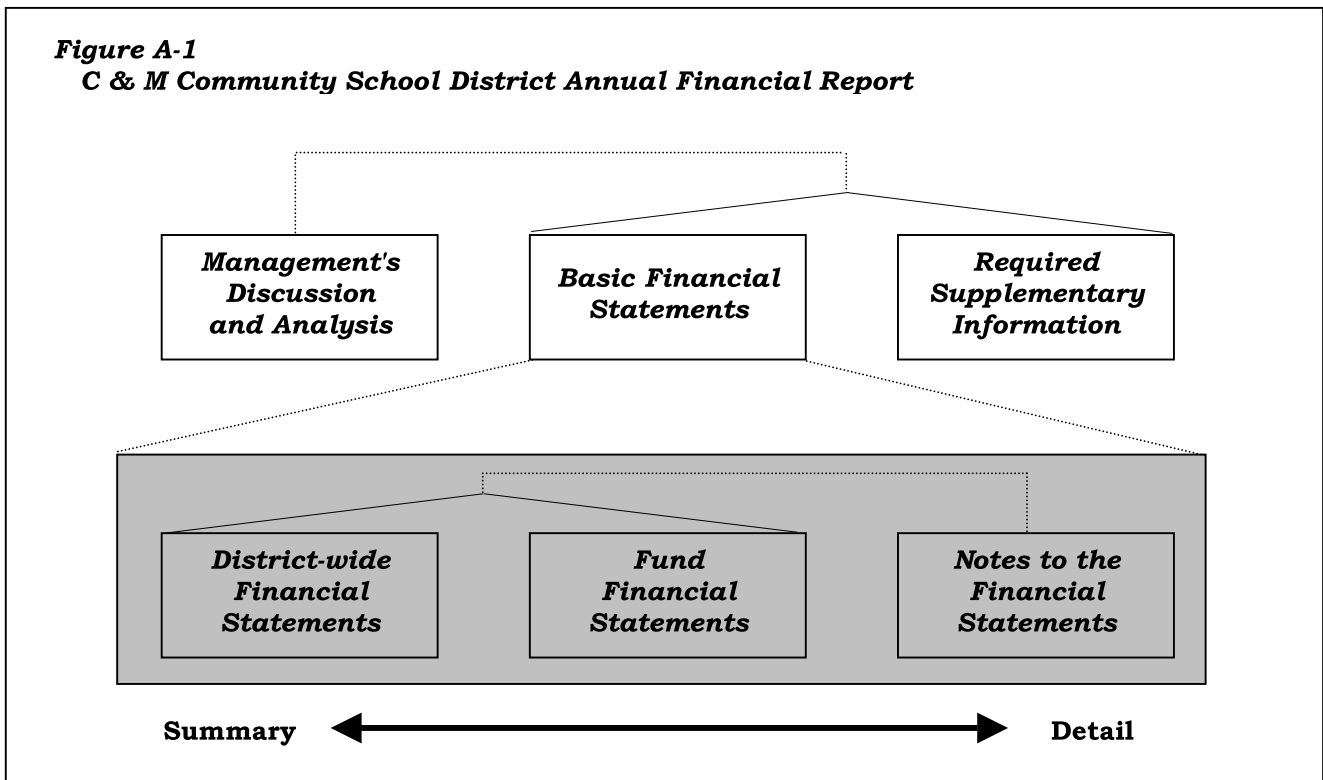


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
 - The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

- *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.
- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employees' purchases for the Hearts and Flowers fund and for the CMEA (Education Association) fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to 2006.

**Figure A-3
Condensed Statement of Net Assets**

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2007-2006
Current and other assets	\$1,712,621	\$1,683,429	\$1,202	\$1,429	\$1,713,823	\$1,684,858	1.8%
Capital assets	\$1,271,442	\$1,358,293	\$3,645	\$3,414	\$1,275,087	\$1,361,707	-6.4%
Total Assets	\$2,984,063	\$3,041,722	\$4,847	\$4,843	\$2,988,910	\$3,046,565	-1.9%
Long-term obligations	\$7,000	\$10,233	0	0	\$7,000	\$10,233	-3.6%
Other obligations	\$1,086,804	\$1,220,029	0	0	\$1,086,804	\$1,220,029	-10.9%
Total Liabilities	\$1,093,804	\$1,230,262	0	0	\$1,093,804	\$1,230,262	-10.8%
Net assets:							
Invested in capital assets, net of related debt	\$1,271,442	\$1,358,293	\$3,645	\$3,414	\$1,275,087	\$1,361,707	-6.4%
Restricted	\$426,637	\$366,407	0	0	\$426,637	\$366,407	16.4%
Unrestricted	\$192,180	\$86,760	\$1,202	\$1,429	\$193,382	\$88,189	119.3%
Total Net Assets	\$1,890,259	\$1,811,460	\$4,847	\$4,843	\$1,895,106	\$1,816,303	4.3%

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to 2006.

**Figure A-4
Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30	June 30	June 30	June 30	June 30	June 30	
	2007	2006	2007	2006	2007	2006	2006-2007
Revenues:							
Program revenues:							
Charges for service and sales	\$260,679	\$269,536	\$45,433	\$47,313	306,112	316,849	-3.4%
Operating grants, contributions, and restricted interest	276,328	266,435	48,900	45,515	325,228	311,950	4.3%
Capital grants, contributions and restricted interest	0	0	0	0	0	0	0.0%
General revenues:							
Property tax	926,435	819,277	0	0	926,435	819,277	13.1%
Unrestricted state grants	758,081	736,849	0	0	758,081	736,849	2.9%
Unrestricted investment earnings	47,021	19,842	40	39	47,061	19,881	136.7%
Other	208,480	236,702	0	0	208,480	236,702	-11.9%
Total Revenues	\$2,477,024	\$2,348,641	\$94,373	\$92,867	\$2,571,397	\$2,441,508	5.3%
Program expenses:							
Governmental activities							
Instruction	1,476,233	1,476,538	0	0	1,476,233	1,476,538	0.0%
Support services	758,817	697,050	0	0	758,817	697,050	8.9%
Non-instructional programs	6,982	7,324	94,369	95,605	101,351	102,929	-1.5%
Other expenses	156,193	145,508	0	0	156,193	145,508	7.3%
Total Expenses	\$2,398,225	\$2,326,420	\$94,369	\$95,605	\$2,492,594	\$2,422,025	2.9%
Change in net assets	78,799	22,221	4	-2,738	78,803	19,483	304.5%

In 2007, property tax and unrestricted state grants account for 68 percent of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services which account for 93.2 percent of the total governmental activities expenses.

Governmental Activities

Revenues for governmental activities were \$2,477,024 and expenses were \$2,398,225.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5
Total and Net Cost of Governmental Activities**

	Total Cost of Services	Net Cost of Services
Instruction	\$1,476,233	\$1,010,945
Support Services	\$758,817	\$755,497
Non-instructional programs	\$6,982	\$6,982
Other expenses	<u>\$156,193</u>	<u>\$87,794</u>
Totals	\$2,398,225	\$1,861,218

- The cost financed by users of the District's programs was \$260,679.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$276,328.
- The net cost of governmental activities was financed with \$926,435 in property tax, \$758,081 in state foundation aid, \$59,466 in income surtax, \$129,492 in local option taxes, \$47,021 in interest income, and \$19,522 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$94,373 and expenses were \$94,369. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2007, the District increased meal prices. The School Nutrition Fund had been running a deficit for a significant number of years. The District will increase meal prices again for the upcoming fiscal year in an effort to meet expenses.

Financial Analysis of the District's Funds

As previously noted, the C & M Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$568,621, up from last year's ending fund balances of \$408,161, due to increases in the SILO tax fund and an increase in the cash reserve levy in the General Fund.

Governmental Fund Highlights

- The General Fund balance increased from \$31,521 to \$134,984, due in part to the increase in the cash reserve levy from \$40,000 in FY 2006 to \$190,000 in FY 2007.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$153,872 in fiscal 2006 to \$63,972 in fiscal 2007. As mentioned previously, the PPEL tax levy was reduced in order to raise the amount of the cash reserve levy and not increase taxes extraordinarily. Expenditures from the PPEL Fund in FY 2007 included computer equipment for \$53,242, new Suburban for \$35,000, and roof repairs for \$22,000.
- The School Infrastructure and Local Option Sales tax (SILO) Fund balance increased from \$185,966 in fiscal 2006 to \$327,249 in fiscal 2007. SILO funds can be used for the same purposes as PPEL funds. Anticipated expenditures from the SILO fund in fiscal 2008 include renovations to the Massena building to accommodate moving the elementary students to the Massena building upon the closure of the Cumberland building.

Proprietary Fund Highlights

The District is making strides in improving the financial situation of the School Nutrition Fund. A four-year increase in meal prices will hopefully enable the District to be at, at least, a break even point.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 46-47.

Legal Budgetary Highlights

The District's total actual receipts were \$129,440 less than the total budgeted receipts, a variance of 4.8%.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the District had invested \$1,275,087, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$118,370.

The original cost of the District's capital assets was \$3,148,215. Governmental funds account for \$3,081,127 with the remainder of \$67,088 in the Proprietary, School Nutrition Fund.

Significant capital assets activities include the purchase of a suburban and computer equipment.

Long-Term Debt

At June 30, 2007, the District had long-term debt totaling \$7,000, for one early-retirement plan. More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has evaluated the condition of its transportation vehicles and does not anticipate purchasing any vehicles in FY 2008.
- Whole-grade sharing revenues and expenditures should be at the same level as Fiscal Year 2007.
- The District will receive additional whole-grade sharing dollars in Fiscal Year 2008. The Sharing Agreement was renewed in fiscal 2007.
- Open enrollment-out expenditures should be at approximately the same level for fiscal 2008 as the previous year.
- Discussion is underway on the possible closing of the elementary building and moving all students to the middle school building in Massena. If this does happen, renovations will need to be made to the middle school building to accommodate this move.
- Repairs already planned include re-keying classrooms for safety precautions, installing new windows, new doors and keyless entry to the Massena building. SILO funds can be used for these improvements.
- The District's health insurance premiums increased almost \$70 per month per employee for fiscal 2008.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Linda Edwards, District Secretary/Treasurer and Business Manager, C & M Community School District, PO Box 7, Massena, Iowa, 50853.

Basic Financial Statements

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 534,943	\$ 130	\$ 535,073
Receivables:			
Property tax:			
Current year	20,075	-	20,075
Succeeding year	879,000	-	879,000
Income surtax	57,196	-	57,196
Accounts	1,231	-	1,231
Due from other governments	30,419	-	30,419
Inventories	-	1,072	1,072
Restricted ISCAP assets (note 3):			
Investments	189,700	-	189,700
Accrued interest receivable	57	-	57
Capital assets, net of accumulated depreciation (note 4)	1,271,442	3,645	1,275,087
 Total assets	 2,984,063	 4,847	 2,988,910
<u>Liabilities</u>			
Salaries and benefits payable	1,219	-	1,219
Due to other governments	13,829	-	13,829
ISCAP warrants payable (note 3)	190,000	-	190,000
ISCAP accrued interest payable (note 3)	47	-	47
ISCAP unamortized premium (note 3)	1,410	-	1,410
Deferred revenue:			
Succeeding year property tax	879,000	-	879,000
Other	1,299	-	1,299
Long-term liabilities (note 5):			
Portion due within one year:			
Early retirement	1,200	-	1,200
Portion due after one year:			
Early retirement	5,800	-	5,800
 Total liabilities	 1,093,804	 -	 1,093,804

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets	\$ 1,271,442	\$ 3,645	\$ 1,275,087
Restricted for:			
Management levy	26,310	-	26,310
Physical plant and equipment levy	63,972	-	63,972
Other special revenue purposes	9,106	-	9,106
Capital projects	327,249	-	327,249
Unrestricted	192,180	1,202	193,382
Total net assets	<u>\$ 1,890,259</u>	<u>\$ 4,847</u>	<u>\$ 1,895,106</u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 1,476,233	\$ 257,359	\$ 207,929
Support services:			
Student services	2,308	-	-
Instructional staff services	137,885	-	-
Administration services	226,826	-	-
Operation and maintenance of plant services	223,506	-	-
Transportation services	168,292	3,320	-
	758,817	3,320	-
Non-instructional programs	6,982	-	-
Other expenditures:			
Facilities acquisition	41,887	-	-
AEA flowthrough	68,399	-	68,399
Depreciation (unallocated) *	45,907	-	-
	156,193	-	68,399
Total governmental activities	2,398,225	260,679	276,328
Non-instructional programs:			
Food service operations	94,369	45,433	48,900
Total	\$ 2,492,594	\$ 306,112	\$ 325,228

Net (Expense) Revenue and Changes in Net Assets		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ <u>(1,010,945)</u>	\$ <u>-</u>	\$ <u>(1,010,945)</u>
(2,308)	-	(2,308)
(137,885)	-	(137,885)
(226,826)	-	(226,826)
(223,506)	-	(223,506)
(164,972)	-	(164,972)
<u>(755,497)</u>	<u>-</u>	<u>(755,497)</u>
<u>(6,982)</u>	<u>-</u>	<u>(6,982)</u>
(41,887)	-	(41,887)
-	-	-
<u>(45,907)</u>	<u>-</u>	<u>(45,907)</u>
<u>(87,794)</u>	<u>-</u>	<u>(87,794)</u>
<u>(1,861,218)</u>	<u>-</u>	<u>(1,861,218)</u>
<u>-</u>	<u>(36)</u>	<u>(36)</u>
<u>(1,861,218)</u>	<u>(36)</u>	<u>(1,861,254)</u>

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
General Revenues:			
Property tax levied for:			
General purposes			
Capital outlay			
Income surtax			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investment earnings			
Other			
Total general revenues			
Change in net assets			
Net assets beginning of year			
Net assets end of year			

* = This amount excludes the depreciation included
in the direct expenses of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets			
<hr/>			
	Governmental Activities	Business-Type Activities	Total
	<hr/>	<hr/>	<hr/>
\$	885,555	\$ -	\$ 885,555
	40,880	-	40,880
	59,466	-	59,466
	129,492	-	129,492
	758,081	-	758,081
	47,021	40	47,061
	19,522	-	19,522
	<hr/>		
	1,940,017	40	1,940,057
	<hr/>		
	78,799	4	78,803
	<hr/>		
	1,811,460	4,843	1,816,303
	<hr/>		
\$	<u>1,890,259</u>	<u>\$ 4,847</u>	<u>\$ 1,895,106</u>

C & M COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and pooled investments	\$ 123,272	\$ 307,128	\$ 104,543	\$ 534,943
Receivables:				
Property tax:				
Current year	18,230	-	1,845	20,075
Succeeding year	744,000	-	135,000	879,000
Income surtax	57,196	-	-	57,196
Accounts	1,231	-	-	1,231
Due from other governments	10,298	20,121	-	30,419
Restricted ISCAP assets (note 3):				
Investments	189,700	-	-	189,700
Accrued interest receivable	57	-	-	57
	<u>1,143,984</u>	<u>327,249</u>	<u>241,388</u>	<u>1,712,621</u>
Total assets	\$ 1,143,984	\$ 327,249	\$ 241,388	\$ 1,712,621
Liabilities and Fund Balances				
Liabilities:				
Salaries and benefits payable	\$ 1,219	\$ -	\$ -	\$ 1,219
Due to other governments	13,829	-	-	13,829
ISCAP warrants payable (note 3)	190,000	-	-	190,000
ISCAP accrued interest payable (note 3)	47	-	-	47
ISCAP unamortized premium (note 3)	1,410	-	-	1,410
Deferred revenue:				
Succeeding year property tax	744,000	-	135,000	879,000
Other	58,495	-	-	58,495
Total liabilities	<u>1,009,000</u>	<u>-</u>	<u>135,000</u>	<u>1,144,000</u>
Fund balance:				
Unreserved:				
Reported in nonmajor Special				
Revenue Funds	-	-	106,388	106,388
Undesignated	134,984	327,249	-	462,233
Total fund balances	<u>134,984</u>	<u>327,249</u>	<u>106,388</u>	<u>568,621</u>
Total liabilities and fund balances	\$ 1,143,984	\$ 327,249	\$ 241,388	\$ 1,712,621

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total fund balances of governmental funds	\$ 568,621
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,271,442
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	57,196
Long-term liabilities, including early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(7,000)</u>
Net assets of governmental activities	<u>\$ 1,890,259</u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	General	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 898,334	\$ 129,493	\$ 85,078	\$ 1,112,905
Tuition	229,049	-	-	229,049
Other	58,326	11,790	24,511	94,627
State sources	949,483	-	49	949,532
Federal sources	88,729	-	-	88,729
Total revenues	2,223,921	141,283	109,638	2,474,842
Expenditures:				
Current:				
Instruction	1,448,308	-	24,966	1,473,274
Support services:				
Student services	2,308	-	-	2,308
Instructional staff services	84,243	-	53,642	137,885
Administration services	213,176	-	8,576	221,752
Operation and maintenance of plant services	187,720	-	24,821	212,541
Transportation services	110,347	-	39,232	149,579
	597,794	-	126,271	724,065
Non-instructional programs	6,182	-	800	6,982
Other expenditures:				
Facilities acquisition	-	-	41,887	41,887
AEA flowthrough	68,399	-	-	68,399
	68,399	-	41,887	110,286
Total expenditures	2,120,683	-	193,924	2,314,607
Excess (deficiency) of revenues over (under) expenditures	103,238	141,283	(84,286)	160,235

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	General	Capital Projects	Nonmajor Governmental Funds	Total
Other financing sources (uses):				
Sale of equipment	\$ 225	\$ -	\$ -	\$ 225
Net change in fund balances	103,463	141,283	(84,286)	160,460
Fund balances beginning of year	31,521	185,966	190,674	408,161
Fund balances end of year	<u>\$ 134,984</u>	<u>\$ 327,249</u>	<u>\$ 106,388</u>	<u>\$ 568,621</u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ 160,460

Amounts reported for governmental activities in the Statement of Activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 30,500	
Depreciation expense	<u>(117,351)</u>	(86,851)

Income surtax revenue not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the Statement of Activities. 1,957

Some expenses reported in the Statement of Activities, such as early retirement, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 3,233

Change in net assets of governmental activities \$ 78,799

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2007

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 130
Inventories	1,072
Capital assets, net of accumulated depreciation	<u>3,645</u>
Total assets	<u>4,847</u>
Liabilities	
None	<u>-</u>
Invested in capital assets	3,645
Unrestricted	<u>1,202</u>
Total net assets	<u>\$ 4,847</u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 Year Ended June 30, 2007

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ <u>45,433</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	38,365
Benefits	9,406
Supplies	45,579
Depreciation	<u>1,019</u>
	<u>94,369</u>
Operating loss	<u>(48,936)</u>
Non-operating revenues:	
Interest on investments	40
Contributions	3,200
State sources	1,174
Federal sources	<u>44,526</u>
Total non-operating revenues	<u>48,940</u>
Change in net assets	4
Net assets beginning of year	<u>4,843</u>
Net assets end of year	\$ <u><u>4,847</u></u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 45,266
Cash received from miscellaneous operating activities	167
Cash payments to employees for services	(44,571)
Cash payments to suppliers for goods or services	<u>(41,536)</u>
Net cash used by operating activities	<u>(40,674)</u>
Cash flows from non-capital financing activities:	
State grants received	1,550
Federal grants received	<u>40,346</u>
Net cash provided by non-capital financing activities	<u>41,896</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(1,250)</u>
Cash flows from investing activities:	
Interest on investments	<u>40</u>
Net increase in cash and cash equivalents	12
Cash and cash equivalents beginning of year	<u>118</u>
Cash and cash equivalents end of year	<u>\$ 130</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (48,936)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	1,019
Commodities used	4,180
Contributions	3,200
(Increase) in inventories	<u>(137)</u>
Net cash used by operating activities	<u>\$ (40,674)</u>
Non-cash investing, capital and financing activities:	
During the year ended June 30, 2007, the District received \$4,180 of federal commodities and \$3,200 of contributions.	

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007

	Private Purpose Trust	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Cash and pooled investments	\$ <u>22,914</u>	\$ <u>228</u>
Liabilities:		
Other payables	<u>-</u>	<u>228</u>
Net assets:		
Reserved for scholarships	\$ <u><u>22,914</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2007

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ <u>870</u>
Deductions:	
Support services:	
Scholarships awarded	<u>2,000</u>
Change in net assets	(1,130)
Net assets beginning of year	<u>24,044</u>
Net assets end of year	\$ <u><u>22,914</u></u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

C & M Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through eight. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Cumberland and Massena, Iowa, and portions of the agricultural territory in Cass and Adams Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, C & M Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. C & M Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Cass County Assessor's Conference Board.

B. Basis of Presentation

District-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost, and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

Income Surtax Receivable – Income surtax budgeted for the fiscal year ended June 30, 2007 will not be received by the District until several months after the fiscal year end. Accordingly, income surtax is recorded as a receivable and included in deferred revenue on the modified accrual basis for the governmental funds. For the District-wide statements, on the Statement of Activities the income surtax revenue is recognized.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable – Payroll and related expenses for hourly employees, which are payable in July, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave. The District's policy is not to reimburse for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability at June 30, 2007.

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets – In the District-wide Statement of Net Assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 2. Cash and Pooled Investments (continued)

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u>670,190</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk – The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

Note 3. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>	<u>Unamortized Premium</u>
2007-08A	6/27/2007	6/27/2008	\$ <u>189,700</u>	\$ <u>57</u>	\$ <u>190,000</u>	\$ <u>47</u>	\$ <u>1,410</u>

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 3. Iowa Schools Cash Anticipation Program (ISCAP) (continued)

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2006-07A	\$ <u> - </u>	\$ <u> 80,000 </u>	\$ <u> 80,000 </u>	\$ <u> -</u>

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2006-07A	4.50%	5.676%
2006-07B	4.25%	5.315%
2007-08A	4.50%	5.455%

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 31,200	\$ -	\$ -	\$ 31,200
Capital assets being depreciated:				
Buildings	2,285,646	-	-	2,285,646
Improvements other than buildings	37,202	-	-	37,202
Furniture and equipment	733,243	30,500	36,664	727,079
Total capital assets being depreciated	3,056,091	30,500	36,664	3,049,927
Less accumulated depreciation for:				
Buildings	1,303,769	45,713	-	1,349,482
Improvements other than buildings	33,911	194	-	34,105
Furniture and equipment	391,318	71,444	36,664	426,098
Total accumulated depreciation	1,728,998	117,351	36,664	1,809,685
Total capital assets being depreciated, net	1,327,093	(86,851)	-	1,240,242
Governmental activities capital assets, net	\$ 1,358,293	\$ (86,851)	\$ -	\$ 1,271,442

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 4. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 65,838	\$ 1,250	\$ -	\$ 67,088
Less accumulated depreciation	62,424	1,019	-	63,443
Business-type activities capital assets, net	<u>\$ 3,414</u>	<u>\$ 231</u>	<u>\$ -</u>	<u>\$ 3,645</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:	
Instruction	\$ 6,192
Support services:	
Administration	5,074
Operation and maintenance of plant services	10,965
Transportation	49,213
	<u>71,444</u>
Unallocated depreciation	<u>45,907</u>
Total governmental activities depreciation expense	<u>\$ 117,351</u>
Business-type activities:	
Food service operations	<u>\$ 1,019</u>

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	<u>Early Retirement</u>
Balance beginning of year	\$ 10,233
Additions	-
Reductions	<u>3,233</u>
Balance end of year	<u><u>\$ 7,000</u></u>
Due within one year	<u><u>\$ 1,200</u></u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed twenty-five years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education.

The early retirement incentive for each eligible employee is equal to \$100 per month toward the cost of single health insurance coverage for eight years or until the retiree becomes eligible for Medicare, whichever is sooner.

At June 30, 2007, the District has obligations to one participant with a total liability of \$7,000. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$3,233. The long-term portion of early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006, and 2005. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$58,209, \$56,652, and \$60,447, respectively, equal to the required contributions for each year.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 7. Risk Management

C & M Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$68,399 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

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Required Supplementary Information

C & M COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances – Budget and Actual – All Governmental Funds and Proprietary Fund Required Supplementary Information Year Ended June 30, 2007

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
REVENUES:					
Local sources	\$ 1,436,581	\$ 48,673	\$ 1,485,254	\$ 1,505,559	\$ (20,305)
Intermediate sources	-	-	-	2,500	(2,500)
State sources	949,532	1,174	950,706	1,031,096	(80,390)
Federal sources	88,729	44,526	133,255	159,500	(26,245)
Total revenues	2,474,842	94,373	2,569,215	2,698,655	(129,440)
EXPENDITURES:					
Instruction	1,473,274	-	1,473,274	1,945,676	472,402
Support services	724,065	-	724,065	862,329	138,264
Non-instructional programs	6,982	94,369	101,351	132,231	30,880
Other expenditures	110,286	-	110,286	367,169	256,883
Total expenditures	2,314,607	94,369	2,408,976	3,307,405	898,429
Excess (deficiency) of revenues over (under) expenditures	160,235	4	160,239	(608,750)	768,989
Other financing sources, net	225	-	225	1,500	(1,275)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	160,460	4	160,464	(607,250)	767,714
Balance beginning of year	408,161	4,843	413,004	607,250	(194,246)
Balance end of year	\$ 568,621	\$ 4,847	\$ 573,468	\$ -	\$ 573,468

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

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Other Supplementary Information

C & M COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007

	Special Revenue			Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	
Assets				
Cash and pooled investments	\$ 32,351	\$ 9,106	\$ 63,086	\$ 104,543
Receivables:				
Property tax:				
Current year	959	-	886	1,845
Succeeding year	44,000	-	91,000	135,000
Total assets	<u>\$ 77,310</u>	<u>\$ 9,106</u>	<u>\$ 154,972</u>	<u>\$ 241,388</u>
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ <u>44,000</u>	\$ <u>-</u>	\$ <u>91,000</u>	\$ <u>135,000</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>33,310</u>	<u>9,106</u>	<u>63,972</u>	<u>106,388</u>
Total liabilities and fund equity	<u>\$ 77,310</u>	<u>\$ 9,106</u>	<u>\$ 154,972</u>	<u>\$ 241,388</u>

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2007

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 44,221	\$ -	\$ 40,857	\$ 85,078
Other	4,574	14,370	5,567	24,511
State sources	25	-	24	49
Total revenues	48,820	14,370	46,448	109,638
Expenditures:				
Current:				
Instruction	8,269	16,697	-	24,966
Support services:				
Instructional staff services	400	-	53,242	53,642
Administration services	8,576	-	-	8,576
Operation and maintenance of plant services	14,102	-	10,719	24,821
Transportation services	8,732	-	30,500	39,232
Non instructional programs	800	-	-	800
Other expenditures:				
Facilities acquisition	-	-	41,887	41,887
Total expenditures	40,879	16,697	136,348	193,924
Excess (deficiency) of revenues over (under) expenditures	7,941	(2,327)	(89,900)	(84,286)
Fund balances beginning of year	25,369	11,433	153,872	190,674
Fund balances end of year	\$ 33,310	\$ 9,106	\$ 63,972	\$ 106,388

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Athletics	\$ 12	\$ 430	\$ 422	\$ 20
Cheerleaders	473	-	-	473
Elementary	1,723	2,075	3,345	453
Middle School	130	2,959	2,959	130
Special	7,266	7,627	8,448	6,445
Future Farmers of America	196	-	-	196
Band	1,062	591	682	971
Vocal	-	366	353	13
Interest	571	322	488	405
	<u>\$ 11,433</u>	<u>\$ 14,370</u>	<u>\$ 16,697</u>	<u>\$ 9,106</u>

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 242	\$ 159	\$ 173	\$ 228
Liabilities				
Other payables	\$ 242	\$ 159	\$ 173	\$ 228

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 1,112,905	\$ 998,360	\$ 897,274	\$ 938,295
Tuition	229,049	241,641	230,603	205,089
Other	94,627	59,499	61,589	97,371
Intermediate sources	-	-	-	5,357
State sources	949,532	912,488	928,912	783,182
Federal sources	88,729	91,724	104,129	105,274
Total revenues	<u>\$ 2,474,842</u>	<u>\$ 2,303,712</u>	<u>\$ 2,222,507</u>	<u>\$ 2,134,568</u>
Expenditures:				
Instruction	\$ 1,473,274	\$ 1,480,293	\$ 1,459,609	\$ 1,491,175
Support services:				
Student services	2,308	2,554	627	2,312
Instructional staff services	137,885	105,668	108,022	47,121
Administration services	221,752	209,101	242,368	238,009
Operation and maintenance of plant services	212,541	244,609	266,739	247,130
Transportation services	149,579	136,512	229,587	139,228
Central and other support services	-	-	-	1,076
Non-instructional programs	6,982	7,324	2,287	3,352
Other expenditures:				
Facilities acquisition	41,887	31,563	1,033	-
AEA flowthrough	68,399	65,838	66,248	65,950
Total expenditures	<u>\$ 2,314,607</u>	<u>\$ 2,283,462</u>	<u>\$ 2,376,520</u>	<u>\$ 2,235,353</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
C & M Community School District:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of C & M Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered C & M Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of C & M Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of C & M Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects C & M Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of C & M Community School District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by C & M Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether C & M Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about C & M Community School District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

C & M Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit C & M Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of C & M Community School District and other parties to whom C & M Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of C & M Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
August 17, 2007

C & M COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2007

Part I: Findings Related to the Basic Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

I-A-07 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal and the recording, preparing and signing of checks were all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will investigate alternatives and implement as soon as possible. However, due to staff size it will be difficult to make any adjustments to the current system. We have incorporated the superintendent's assistance into the control system whenever possible.

Conclusion – Response accepted.

I-B-07 Disbursements – Out of forty disbursements tested, two were not supported by an invoice or receipt. They were supported only by purchase orders.

Recommendation – All disbursements should be adequately supported by an invoice, receipt or other written documentation.

Response – These disbursements were isolated instances. We will make sure that all future disbursements are properly supported.

Conclusion – Response accepted.

C & M COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

- II-A-07 Certified Budget – Expenditures for the year ended June 30, 2007 did not exceed the amounts budgeted.
- II-B-07 Questionable Expenditures – No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-07 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-07 Business Transactions – No business transactions between the District and District officials or employees were noted.
- II-E-07 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- II-G-07 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-07 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- II-I-07 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

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